Press release

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The Basel Committee announces progress in finalising its reform programme and releases report to the G20 on response to the financial crisis

The Basel Committee on Banking Supervision met today in Seoul, South Korea, to work towards finalising its reform programme.

The Committee agreed on key details of the liquidity coverage ratio (LCR). It confirmed that both the LCR and the net stable funding ratio will be subject to an observation period and will include a review clause to address any unintended consequences. It also reviewed public comments received on its August 2010 *Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability* and agreed to finalise the proposal by year end. Finally, the Committee agreed to release its report *Calibrating regulatory minimum capital requirements and capital buffers: a top-down approach*. The Committee will issue by year end detailed rules text setting out all elements of the standards for both the capital and liquidity requirements.

At the conclusion of today's meeting, the Basel Committee also published a report on its comprehensive regulatory reform programme to address the lessons of the crisis. The report was prepared for the G20 Finance Ministers and Central Bank Governors meeting in Gyeongju, South Korea on 22-23 October.

The Basel Committee's response to the financial crisis: report to the G20 describes the measures taken by the Committee and its governing body of Central Bank Governors and Heads of Supervision to strengthen the resilience of banks and the global banking system. Mr Nout Wellink, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, noted that "the Basel Committee reforms address the identified weaknesses of the pre-crisis banking sector, thus delivering on the G20 mandate given at the Pittsburgh summit to develop a more resilient banking sector". Mr Wellink introduced the Committee's G20 report at the conclusion of today's meeting in Seoul that was hosted by the Bank of Korea and Korea's Financial Supervisory Service. He expressed his gratitude for "the strong Korean leadership of the G20, which has been critical to maintaining the Committee's momentum in completing its comprehensive package in a timely manner".

The new global standards to address both firm-specific and broader, systemic risks have been referred to as "Basel III". Basel III is comprised of the following building blocks, which were agreed and issued by the Committee and its governing body between July 2009 and September 2010:

- higher *quality* of capital, with a focus on common equity, and higher *levels* of capital to ensure banks can better absorb the types of losses like those associated with this past crisis;
- better coverage of risk, especially for capital market activities;
- an internationally harmonised leverage ratio to constrain excessive risk taking and to serve as a backstop to the risk-based capital measure, with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration;
- capital buffers, which should be built up in good times so that they can be drawn down in periods of stress;
- minimum global liquidity standards to improve banks' resilience to acute short term stress and to improve longer term funding; and
- stronger standards for supervision, public disclosures and risk management.

The Basel Committee is also contributing to the Financial Stability Board initiative to address the risks of globally systemic banking institutions by developing approaches to identify them and ways to raise their loss absorbing capacity, including work on capital surcharges, contingent capital, and bail-in-able debt.

Mr Wellink added that "higher levels of capital, combined with a global liquidity framework and more rigorous supervision will substantially reduce the probability and severity of banking crises in the future. This helps safeguard financial stability and economic growth and reduces the exposure to the public sector and taxpayers."

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The **Basel Committee on Banking Supervision** provides a forum for regular cooperation on banking supervisory matters. It seeks to promote and strengthen supervisory and risk management practices globally. The Committee comprises representatives from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The **Group of Central Bank Governors and Heads of Supervision** is the governing body of the Basel Committee and is comprised of central bank governors and (non-central bank) heads of supervision from member countries. The Committee's Secretariat is based at the Bank for International Settlements in Basel, Switzerland.